

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3803-02
BILL NO.: Perfected HCS for HB 1644
SUBJECT: Retirement: Teacher and Nonteacher
TYPE: Original
DATE: February 22, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
School Districts *	(\$3,253,750)*	(\$3,253,750)*	(\$3,253,750)*

***DOES NOT REFLECT REDUCTION IN SURPLUS OF PUBLIC SCHOOL RETIREMENT SYSTEM (PSRS) OF AT LEAST \$502,602,000. PSRS FUNDS ARE NOT CONSIDERED LOCAL FUNDS FOR FISCAL NOTE PURPOSES.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Joint Committee on Public Employee Retirement** have reviewed this proposal and have determined that it represents a “substantial proposed change” in future plan benefits as defined in section 105.660(5), RSMo. An actuarial cost statement was provided for the original proposal. Although the amendments will have a fiscal impact on the system, they will not require an amended actuarial cost statement.

Officials of the **Office of Administration** assume any fiscal impact as a result of the proposal would be determined by the Public School Retirement System.

Public School Retirement System (PSRS) officials assume the proposal would provide the following benefit improvements for PSRS:

- Extend the 25-and-out retirement option for an additional three years.
- Change the first cost-of-living adjustment (COLA) effective date to the third January first following retirement for members retiring on or after July 1, 2000.
- Increase the COLA cap from 75% to 80%.
- Provide a 3.5% increase for retirees and beneficiaries of deceased retirees whose retirement date was prior to July 1, 2000.
- Provide for current survivor benefit amounts to be paid to all beneficiaries receiving survivor benefits.

An actuarial study obtained by PSRS indicates that the total cost of these provisions would be \$502,602,000. As of June 30, 1999, PSRS was overfunded by \$836,726,000. Therefore, the total cost would represent a decrease in the system’s surplus. There would be no additional contributions required of local school districts.

In addition, PSRS officials note that two amendments to the original proposal may impact the system. The provision allowing administrators who had been PSRS members, who lost eligibility as a result of the discovery that they did not hold current certificates, and who subsequently obtained such as certificate to be reinstated as a member eligible for all benefits could impact the system in that the definition of administrator is unclear, and the provision is likely to invite equal protection challenges from similarly-situated teachers and administrators who had been members of the Non-Teacher School Employee Retirement System. PSRS officials assume the provision that would require cost-of-living adjustments for survivor benefits would require an actuarial cost study to determine the impact on the system. An actuarial study

ASSUMPTION (continued)

has not been requested. The cost would need to be determined in order to determine whether such benefits could be paid for based on current contribution rates.

Oversight notes that while there is significant fiscal impact to the retirement system, there is no immediate cost to local school districts for the components of the proposal for which PSRS has obtained an actuarial cost analysis since these components would not increase their contribution rates. Since the cost of providing for cost-of-living adjustments for survivor benefits is unknown, Oversight has noted for fiscal note purposes total costs to PSRS of **at least** \$502,602,000. Funds of the retirement system are not considered local funds for fiscal note purposes. There will be long-term fiscal impact as a result of this legislation, since reduction of the system's surplus will contribute to any need for increased contributions in the future.

In addition, PSRS officials assume the proposal would provide the following benefit improvements for the Nonteacher School Employee Retirement System (NTRS):

- A three-year final average salary period
- Increase the formula factor from 1.45% to 1.51%
- Provide for full retirement if age plus service equals 80
- Extend the 25-and-out provisions for three years
- Increase the formula under the 25-and-out provisions
- Increase the maximum employee contribution rate to 5%
- Across the board increase of 3.4% for retirees and beneficiaries of deceased retirees
- Provide a .4% increase for those retiring on or after July 1, 2000, who are less than minimum age for social security retirement eligibility and who have at least 30 years of credit or retire under the rule of 80. This additional payment would be made until the retiree reaches the minimum age for social security retirement eligibility.

An actuarial analysis indicates that the total cost of these provisions would be \$101,467,000. As of June 30, 1999, the NTRS was overfunded by \$166,796,000. However, because the normal cost component would exceed the current contribution rate, the contribution rate would be increased from the current 9.0% (4.5% each from local school districts and employee members) to a total of 9.95% (4.975% each from local school districts and employee members).

Based on a covered payroll as of June 30, 1999 of \$685 million and the increase in the contribution required from local school districts of 0.475%, **Oversight** calculates that annual contributions by school districts would increase by \$3,253,750. Because the proposal has an emergency clause, a full year of costs is reflected in FY 2001 as well.

	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - State Government</u>			
	\$0	\$0	\$0

	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - Local Government</u>			

SCHOOL DISTRICTS

<u>Costs</u> - increased contributions to PSRS	<u>(\$3,253,750)*</u>	<u>(\$3,253,750)*</u>	<u>(\$3,253,750)*</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

The proposal would make various benefit improvements to the Public School Retirement System, including extending the 25-and-out retirement option for an additional three years, changing the first cost-of-living adjustment (COLA) effective date to the third January first following retirement for members retiring on or after July 1, 2000; increasing the COLA cap from 75% to 80%; providing a 3.5% increase for retirees and beneficiaries of deceased retirees whose retirement date was prior to July 1, 2000; providing current survivor benefit amounts to be paid to all beneficiaries receiving survivor benefits; allowing administrators who had been PSRS members, who lost eligibility as a result of the discovery that they did not hold current certificates, and who subsequently obtained such as certificate to be reinstated as a member eligible for all benefits; and providing for cost-of-living adjustments for survivor benefits. In addition, the proposal would make revisions to the Nonteacher School Employee Retirement System, including revising the definition of final average salary, increasing the maximum allowable contribution rate from 4.5% to 5%, implementing the rule of 80, increasing the multiplier from 1.45% to 1.51%, extending window for the 25-and-out option, providing a one-time benefit to certain members, and creating a temporary multiplier for certain members.

This proposal contains an emergency clause.

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DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Office of Administration
Public School Retirement System

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "Jarrett".

Jeanne Jarrett, CPA
Director
February 22, 2000